July 7, 2016

COLUMBIA BUSINESS SCHOOL

B8511 -- Turnaround Management (Autumn 2016)

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This is a SURVEY course that discusses a wide range of turnaround topics.

The exact sequence of materials assigned for discussion (and paper due dates) may change―depending on availability of guest speakers.

*Always* consult CANVAS for the updated sequence of due dates.

*FINAL PROJECTS ARE DUE (IN CANVAS) AT NOON ON FRIDAY, DECEMBER 16th*

CASES:   Customized book of cases and readings is available. Please consult CANVAS for location of assigned readings if they are not in your case book.

Additional

TEXTS: Donald B. Bibeault (1998) [Corporate Turnaround: How Managers Turn Losers into Winners](http://www.amazon.com/Corporate-Turnaround-Managers-Losers-Winners/dp/1893122026/ref%3Dpd_bbs_sr_1?ie=UTF8&s=books&qid=1212314916&sr=1-1)

John O. Whitney (1998) [Taking Charge: Management Guide to Troubled Companies and Turnarounds](http://www.amazon.com/Taking-Charge-Management-Companies-Turnarounds/dp/1893122034/ref%3Dsr_1_6?ie=UTF8&s=books&qid=1212314916&sr=1-6)

WRITE-

UPS DUE: You submit FIVE write-ups plus a Final Project (solo or teams). Write-ups in Sessions 1, 2, and 5 are mandatory. You choose whether to write up the assignment for Session 6 OR 7 (both are about Exchange Offers). You choose whether to write up the assignment due for Session 4, 8, or 10. (See section of point distribution for details.) The Final Project is mandatory (solo or teams).You may be presenting your solution to a particular assignment in class.  *[CANVAS offers more explanations about expectations for write-ups. Read instructions beforehand.]*

SURVEYS: INDIVIDUAL responses are *mandatory* for surveys associated with each case for each class session—whether you wrote up/ presented a case or not. The surveys correspond to the cases that everybody reads. ALWAYS answer survey questions. Points received for completing the CANVAS surveys are a part of the 25% of individual contribution points used to calculate your Final Grade. (*Useful contributions to class discussions is the other part.*)

**COURSE DESCRIPTION**

This Turnaround Management course is about rehabilitating distressed companies. The course examines turnaround business situations, i.e., established firms experiencing operational, financial and managerial difficulties. It emphasizes the *operating manager’s* perspective and considers strategy issues as well as financial ones. (In some sessions the creditor’s viewpoint is of critical importance as it affects managerial autonomy.)

Turnaround Management integrates the functional disciplines of the core curriculum: that means that a basic understanding of accounting and corporate finance is mandatory to do the class exercises which look at cash flows projections, debt restructuring and liquidation analysis. Use your core finance class to value a firm’s equity if you want to exchange its debt for more equity. The Final Project requires the general manager’s perspective to suggest operating changes as well as use of qualitative and quantitative tools to effect solutions. After all, without viable demand for products, the firm is dead.

**COURSE CONTENT**

Turnaround Management addresses many aspects of managing a corporation in trouble and in the turnaround process). There are many cases to analyze. Students will learn to distinguish between “troubled” firms (that can be repaired) and “crisis” companies that are unlikely to survive.  The course looks at restructuring operations, assets and liabilities, capital structures, organizational issues and strategy. U.S. bankruptcy is discussed as an alternative (and other nations are considering whether to allow troubled companies to be restructured). The primary objectives of the course are:

* To help MBA candidates recognize symptoms (and early warning signals) associated with distressed divisions, subsidiaries, or diversified companies (or those on the way to trouble).
* To help MBA candidates diagnose the *root causes* of business trouble
* To help them prescribe effective corrective action appropriate to the resources available, in light of competitive intensity, general economic conditions, and other exogenous opportunities and constraints, e.g., technological, regulatory, social, demographic, political, et cetera.

**METHOD OF INSTRUCTION**

**Course Materials**
The pedagogical portfolio consists of a case packet, web site material, group exercises, written submissions, and guest speakers.  Additional written materials may be distributed in class or via the CANVAS courseware.  References will be made to recent corporate troubles, so keep current on turnarounds and bankruptcies. You will find firms appropriate for the Final Project’s requirements at websites like [http://www.distressedcompanyalert.com].

Join the Turnaround Management Association [http:\\www.turnaround.org] or Columbia Business School’s Private Equity/ Venture Capital Club for additional information about turnaround management: [http:\\www0.gsb.columbia.edu/students/organizations/pevc/](http://www0.gsb.columbia.edu/students/organizations/pevc/).

**Attendance**Class participation is evaluated for each class session and comprises part of the individual contributions part of your final grade. **Since it is *impossible* to participate in absentia, your attendance is expected and unexcused absences will adversely affect your course grade.  Excused absences are those officially sanctioned by the School's academic regulations.  In *all* cases of absence, professional conduct and courtesy dictate that the Professor be informed prior to class – whether the absence is an excused one (or not). Hint: You can improve class participation by volunteering to present a few PowerPoint slides on your team’s analysis on the day that your write-up is discussed. You can also gain extra credit participation points by offering the class a supplemental presentation on topics related to course materials. Look at the session titles and readings to get ideas on supplemental presentations (for extra participation points). Send the professor an email to reserve a case (or supplemental topic) for presenting.**

**These basic proportions are used to calculate the Final Grade:**

 Write-ups of FIVE cases = **50%**. (These cases are spelled out herein -- with extra credit points available for write-ups of the optional cases.)

 Individual contributions to class = **25%** -- which includes the CANVAS surveys.

Final Projects = **25%**

In practice, passing course grades will be calculated using a 1,100-point accumulation; there will be a maximum of 400 points of extra credit available for case write-ups (from submitting additional papers) for calculating high pass and honors grades.

**300 points** for Final Project (Analysis, Recommendations, Presentation).

**300 points** for daily, individual class contributions (including **200 points** for individually completing CANVAS surveys pertaining to cases and evaluating the course materials and **100 points** for routine, daily individual contributions to class). Your individual accumulation of these class contribution points can be augmented by making presentations similar to the extra credit examples posted in sessions 6 and 9 (and by getting your team to present its write-ups in class). Schedule any such extra-credit presentations with Professor Harrigan ASAP;

That’**s 600 points so far ….**

**Plus another 300 points for these required cases:**

 **50 points** for Nadir Publishing **(required)**. Evaluation equally based on analytics as well as insightful discussions supported by analytics of the case;

**200 points** for Bonne Chance (A and B) **(required)**. Evaluation equally based on analytics as well as insightful discussions supported by analytics of the case;

 **50 points** for Bonne Chance 2006 **(required)**. Although analytics are required, evaluation is skewed towards insightful discussion/ recommendations suggested by a 16-month cash-flow forecast for Bonne Chance 2006;

 **(subtotal is up to 900 points now)**

**PLUS**

**100 points** for Allegheny International **(Choice A)**. Evaluation based on analytics as well as insightful discussion of the exchange offers supported by analytics of Allegheny International **-- OR -- 100 points** for Foamex **(Choice B)**. Evaluation based on analytics as well as insightful discussion of the exchange offers supported by analytics of Foamex**;**

**PLUS 100 Points** for write-up of an optional case:[[1]](#footnote-1)

**100 points** for Lyric Dinner Theater (**OPTIONAL) – OR -- 100 points** for the Arch Wireless “Fairness Opinion” **(OPTIONAL) – OR -- 100 points** for PRG-Schultz International (A) (**OPTIONAL**). Evaluation equally based on analytics as well as insightful discussion of issues supported by analytics of case.

**There are 1,400 points available.**

**70% of the basic 1,100 points are needed for a “P” (That’s 770 points)**

**Preparation and Class Participation**
Write-ups, projects, assigned cases and readings for this course constitute a *heavy* preparation load.  The expectation is that these materials will be fully prepared for each session and that all team members have worked on the assignments due. Each team should volunteer to come to class ready to open the day’s discussion with a few PowerPoint slides in hand. There is *Extra Credit* to be earned by volunteering to make a special presentation on the day’s topic – which can include critiquing all related reading materials – accompanied by a PowerPoint presentation (with handouts provided to members of class) or other innovative topics. Schedule these presentations with Professor. Every day the Professor must assess your contributions – individually and in your teams.  MBAs receive one point per day for attending class and saying nothing (that includes asking no questions). Presentations receive the maximum daily grade, but contributions based on thorough analysis leading the case discussion in important new directions -- including specific examples as well as great underlying analysis – receive almost as many daily points. “Ringers” (professionals who work daily on restructuring firms) that share their knowledge daily receive lots of discussion points too. Contributions which are based on students’ own experience from situations outside the case will be welcomed when they enrich the case discussion.

The assignments are done individually or in groups.  These assignments involve a balanced mix of quantitative and conceptual analysis -- as well as a high degree of cooperation among team members.  Each team should be composed of *no more than* *six members*.  If you have no team affiliation, you will turn in papers *alone*.

**Deliverables**

Written analyses are assigned during the course with all inclusive page limits.  Please note that *“all inclusive”* means that all pages of text and pages of spreadsheets or charts count towards the limit.[[2]](#footnote-2)  All written submission must be prepared using 10-point Arial font for all alpha and numeric characters. Use of legal size paper for financial presentations is fine. The Professor will read and evaluate each one.  In CANVAS, click on the assignment for each respective write-up to read the instructions associated with that particular case. *Submit a PDF or WORD document -- plus your XLSX file, and/ or your PPTX slides for each assignment before each respective class begins. Remember also that* **each** *member of the team should be familiar enough with the solution submitted to answer the online survey individually by 7:30 AM on the day when the case will be discussed.*

**Final Project**

It is due at NOON on Friday, December 16th. With a total and all-inclusive page limit of 30 (PDF pages), MBAs will be expected to describe a situation and recommend (with supporting evidence for) the turnaround strategy advocated.  If the students' conclusion is that the entity should sell out, outsource or file for Chapter 11, the implications of this action for managers, shareholders, bankers, creditors, customers, et cetera, should be discussed thoroughly, and this course of action must be carefully supported through insightful analytic reasoning and financial analysis.  See the CANVAS for additional write-up details concerning this assignment. The best Final Project(s) will be submitted to the Turnaround Management Association’s annual “Best Paper” Competition. Go to the TMA website to see past prize-winning projects. MBA projects usually win the local competition – sometimes the Nationals too.

Suggestions

Form a team of at least three competent members as soon as you enroll.

Give team a *memorable* name to help the Professor remember your contributions.

Volunteer to present in-class your team’s analysis of one of the early write-ups.

Always submit your XLSX spreadsheets as a supplement to other documents comprising the write-up but include key excerpts in the main document – especially if you submit a PDF file. The Professor offers feedback on XLSX files, where possible.

Every case discussed has a corresponding survey. Always submit the survey individually by 7:30 AM to give the Professor ample time to update teaching notes. Each and every member of a particular team must do each and every survey by 7:30 AM on the day when class meets. The surveys are part of the “class contributions” grade and you should always submit them in a timely fashion.

**COURSE OUTLINE AND MATERIALS LIST FOR AUTUMN 2016**

B8511 Turnaround Management

 *Here is the “planned” session sequence. Parts of it may be re-arranged to accommodate the schedule changes of guest speakers. For each session, always check with CANVAS for any updates to keep up with changes in the readings and assignments. Always answer the survey questions by 7:30 AM on the day when class meets.*

**Part I: Sink or Swim**

**September 7, 2016**

**B8511 Session 1: Distressed Companies – Cash Flow Is King!**

***Assignments Due for Session #1 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

*Part I emphasizes “operating turnarounds”*

**Cases:** **“Nadir Publishing”[[3]](#footnote-3)\*** CaseWorks #160421 (posted on CANVAS and in casebook) [Put your analysis in CANVAS’s Session 1 *Nadir Publishing* drop box. ***Read the CANVAS assignment for further instructions about this REQUIRED write-up***]

**“Bonne Chance”\*** CaseWorks #160420 *Introduction only* (posted on CANVAS and in casebook) Your Bonne Chance write-up will be due for Session 2. Come to class with questions.

**Required Reading Assignments Due:**

“Chapter 1: Style and Substance,” in J. Whitney[[4]](#footnote-4)\*\* (1987), Taking Charge: A Management Guide to Troubled Companies and Turnarounds, Dow Jones Irwin, pp. 3-25. [posted on CANVAS and in casebook]

“Chapter 2: Marketing in the Turnaround’s Early Stages,” in J. Whitney\*\* (1987), Taking Charge: A Management Guide to Troubled Companies and Turnarounds, Dow Jones Irwin, pp. 26-34. [posted on CANVAS and in casebook]

Harrigan, K.R.\*\* (2011) “A Turnaround Strategy Framework,” Caseworks #110407 [posted on CANVAS and in casebook]

**Optional Reading Assignments Due**:

Tractenberg (2005), “Quest for Best Seller Creates Pileup of Returned Books,” Wall Street Journal, June 3, p. A1. (posted on CANVAS only)

Collard (2006), “Mining Value from Distressed Companies,” Turnaround Management Association, November, pp. 4-6. (posted on CANVAS only)

The Big Number: 24 Days of Working Capital, 2012, Wall Street Journal, July 23, page B4

**Topics from Core Courses:** *Change management; product line selection; releasing cash from assets; ratio analysis; pro forma analyses*

**Comments concerning the write-up of *Nadir Publishing\** due in Session 1:**

Make recommendations for Nadir Publishing that will make it more solvent (and keep it away from bankruptcy). Suggest ways of improving cash flow. Make a recommendation about the opportunity to distribute the new line of titles (include your persuasive evidence). Recommend how to handle future relationships with creditors. You could provide annotated ratio analysis (if it provides insights), a calculation of Nadir’s “burn rate,” an estimate of break-even levels of activity, some comparison with industry norms, projections of cash flows (at least one week hence), pro forma financial statements and analyses, and a candid assessment of Nadir’s liquidation value (if it were not a going concern). See the Session 1: *Nadir Publishing\** assignment for additional instructions.

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**September 14, 2016**

**B8511 Session 2: Managing the Turnaround Process**

***Assignments Due for Session #2 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Cases Due:**

**“Bonne Chance”[[5]](#footnote-5)\*** CaseWorks #160420 (posted on CANVAS and in casebook) [Submit your analysis in CANVAS’s Session 2/ *Bonne Chance* drop box. *Read the CANVAS assignment for further instructions*] This is a REQUIRED write-up.
**“Elan Corporation Turnaround,”** [KEL 507] [posted on CANVAS and in casebook]

**Required Reading Assignments Due:**

Kaufman, M. 2014. Weekly Cash-Flow Analysis: Why Isn't It a "Best Practice"?

American Bankruptcy Institute Journal (Aug 2014): 32-33,88-89. [posted on CANVAS and in casebook]

J. Alix & J. Marshall, 2003, “Learning Success from Distress,” Strategy + Business, Issue 33 [posted on CANVAS and in casebook]

R. Kanter, 2003, “Leadership and the Psychology of Turnarounds,” Harvard Business Review, June, pp. 3-11. [posted on CANVAS and in casebook]

**Optional Reading Assignments Due**:

 Leitch & Eldredge (2006), “Successful Restructuring Requires a Hard Look at Legacy Costs,” Turnaround Management Association, August, pp. 24-28 [posted on CANVAS only]

Bossi (2006), “Are CROs More Powerful Than Turnaround Consultants?” Turnaround Management Association, pp. 4-8 (posted on CANVAS only)

**Topics from Core Courses:** *Forecasting weekly cash flows from operations; timing of payables; profitability of product lines; situation assessment; strategy implementation*

**Comments concerning the write-up of *Bonne Chance* due in Session 2:** You should submit (and clearly label) (a) the 4th Quarter Bonne Chance Base Case Cash Projection (NO Swatch, NO Rolex trade-in sales promotions, NO Rolex inventory balancing, NO other merchandise off-price sale, and NO expense reductions); (b) all three of the Financial Statements of the firm -- the Bonne Chance P&L, Balance Sheet, and a Summary Sources and Uses Statement for the period October 1 through December 31; and (c) Impact of Swatch on Bonne Chance -- the Cash Projections and P&L with Swatch included (plus the other assumptions delineated in the (B) case).  *Here are some additional instructions*:

1. *To demonstrate the impact of the Swatch initiative, you should project the cash flows of the Base Case forward ONE FULL YEAR.* (Subsequent Bonne Chance write-ups will be easier if you build the FULL YEAR of cash flow forecasting (ending December 31, 2016) for this iteration of the Bonne Chance series. Further instructions are contained on the Bonne Chance drop box. NO Swatch, NO Rolex trade-in sales promotions, NO Rolex inventory balancing, NO other merchandise off-price sale, and NO expense reductions

2. Submit *FULL-YEAR pro forma Financial Statements for 2015* (and 2016) as you would to persuade the work-out officer at the bank.

Read the Session 2: *Bonne Chance* assignment in CANVAS for additional instructions.

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**September 21, 2016**

**B8511 Session 3: Turnaround Managers (Distressed Firms Everywhere)**

***Assignments due for Session #4 (Remember to check CANVAS for updates***:

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Cases:**

**“Lyric Dinner Theater”** [9-386-056] [posted on CANVAS and in casebook] [***Optional Write-up***: Submit your optional analysis in CANVAS’s Session 4/ *Lyric Dinner Theater* drop box. ***Read the CANVAS assignment for further instructions***]

***Guest Lecturer: Robert Shaughnessy (author and seasoned turnaround manager)***

**Required Reading Assignments Due:**
D. Bibeault[[6]](#footnote-6)\*\*\* (1985), “Feed the Winners, … Starve the Losers,” Boardroom Reports, August 1, 1985. [posted on CANVAS and in casebook]

W. McKinley, S. Latham & M. Braun (2014), “Organizational Decline and Innovation: Turnarounds and Downward Spirals,” Academy of Management Review, 39(1):88-110. [posted on CANVAS and in casebook]

K. Harrigan[[7]](#footnote-7)\*\* (1984),"Managing Declining Businesses," Journal of Business Strategy, Vol. 4, No. 3 (Winter), pp. 74-78. [posted on CANVAS and in casebook]

**Optional Reading Assignments Due:**

 Harrigan, KR\*\* 2016. “Why Do Managers Wait So Long to Turn Around Operations?” CaseWorks xx-xxxx.

Hagerty, JR. 2012. “Harley Goes Lean to Build Hogs.” Wall Street Journal. September 12. [posted on CANVAS only]

J. Willoughby (1987), “Endgame Strategy,” Forbes, July 13, 1987, pp. 181-182 [posted on CANVAS only]

Byron (2007), “How to Turn Trash Into Treasure,” Wall Street Journal, April 13, pp. B1 [posted on CANVAS only]

K. Harrigan\*\* (1980), "Strategies for Declining Businesses," Journal of Business Strategy, Vol. 1, No. 2, Fall, pp. 20-34. [posted on CANVAS only]

K. Harrigan\*\* (1981), “How Managers Fool Themselves As Conditions Worsen,” Boardroom Reports, March 9, 1981. [posted on CANVAS only]

K. Harrigan\*\* (1994), “Management Concepts for Turnarounds: Creating and Nurturing Competencies,” Technologie & Management, January, 43(1): 14-18 [posted on CANVAS only]

 Archive of articles about corporate renewal industry [posted on CANVAS] See Table of Contents contained in sub-folder for more details on which articles are in archive

**Topics from Core Courses:** *Management of operations; profitability analysis; management of organizational change; demand analysis; negotiation with organized labor*

**Comment concerning *Lyric Dinner Theater* optional assignment due in Session 4:**

Make some pragmatic suggestions for improvement that are backed by analysis. Prepare financial statements to demonstrate impact of your recommendations. Read the Session 4 CANVAS assignment for additional instructions. *This is an optional write-up*

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**September 28, 2016**

**8511 Session 4: Legal and Economic Aspects of Capital Markets**

***Assignments due for Session #3 (Remember to check CANVAS for updates:***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

*Session 3 typically discusses infrastructural topics*

**Cases:** **“SunGard 8K Filing”** [posted on CANVAS and in casebook]
 **“SunGard Credit Agreement”** [posted on CANVAS and in casebook]
 **“SunGard Indenture”** [posted on CANVAS and in casebook]

  **“Masters’ Novelty”** [posted on CANVAS]

***Guest Lecturer: Doug Squasoni (Crisis Quarterback)***

**Required Reading Assignments Due:**
“B. Credit Derivatives” (2005), Toward Greater Financial Stability: A Private Sector Perspective, July 27, pp. A3-A14. [in casebook]
“Fulcrum Security and Private Equity” (2005), Investing in Distressed Companies, McGuire Woods LLP, March, p. 1 [posted on CANVAS and in casebook]

P. Brusiloff & G. Woods (2005), “Second Lien Financing: A Ten Point Primer for the Borrower (and Its Sponsor) on Intercreditor Dynamics,” The Debevoise & Plimpton Private Equity Report, Summer, pp. 30-32. [posted on CANVAS and in casebook]

R. Bochicchio (2005), “Lender Acceptance Fuels Explosion in Second-Lien Market,” Turnaround Management Association, May, pp. 12-15. [posted on CANVAS and in casebook]

T. Rosenthal (2005), “Debtor-in-Possession Financing: Opportunities, Risks and Rewards,” The Secured Lender, 61(3): May/ June, pp. 8-13 [posted on CANVAS and in casebook]

*Read as much (or as little) about financial considerations as you wish to prepare for Part II of course*

**Optional Reading Assignments Due:**
Moody’s B3 Negative and Lower Corporate Ratings [EXCEL file posted on CANVAS only]

 2013 Comment on Moody’s B3 Negative and Lower Corporate Ratings [posted on CANVAS only]

2014 Comment on Moody’s B3 Negative and Lower Corporate Ratings [posted on CANVAS only]

Term Sheet (Redacted) [posted on CANVAS only]

S. Biswas (2004), “The Creditor’s Cudgel,” The Deal, October 18th. [posted on CANVAS only]

Emergence of Default Swap Index Products [F-268] [posted on CANVAS only]

T. Sasso (2005), “Make It New,” The Deal, May 16th [posted on CANVAS only]

S. Ng & H. Sender (2007), “Easy Money: Behind Buyout Surge, A Debt Market Booms,” Wall Street Journal, June 26, page 1. [posted on CANVAS only]

Lucchetti & Ng (2007), “How Rating Firms’ Calls Fueled Subprime Mess,” Wall Street Journal, August 15, page 1. [posted on CANVAS only]

M. Grynbaum (2008), “Study Finds Flawed Practices at Ratings Firms,” New York Times, July 9, page 1. [posted on CANVAS only]

**Topics from Core Courses:** *Balance sheet analysis, capital structure, ratings agencies and borrowing costs; subordinated debt; institutional/ legal background of restructuring*

**Comment:** There are some very heavy readings scheduled early in the semester in order to apply their concepts in the subsequent write-ups. Session 3 is a *repository* for supplemental readings such as:

Archive of articles about legal and economic aspects of capital markets as they pertain to turnaround management (Includes readings about credit default swaps, distressed debt, and debt restructuring) [posted on CANVAS] See Table of Contents contained in sub-folder for more details on which articles are in archive

Archive of articles about Debtor-in-Possession financing [posted on CANVAS] See Table of Contents contained in sub-folder for more details on which articles are in archive

Archive of articles about bankruptcy [posted on CANVAS] See Table of Contents contained in sub-folder for more details on which articles are in archive

**Comment concerning Sungard case series. *No write-up is due*:**

Today we will discuss the intricate provisions of SunGard's financing.  The agreement is a “template” used in subsequent financing deals like it. You need to understand the creditor seniority, covenants and other salient aspects of this financing. Draw the structure of obligations as a test of whether you understand these documents. (Learn to become a careful reader of these types of filings if you want to work with distressed companies.  It's the most fun you can have without being a lawyer! Private equity firms rely upon the careful reading of these types of documents as part of their due diligence.)

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**October 5, 2016**

**B8511 Session 5: Feed the Winners, Starve the Losers**

***Assignments due for Session #5 (Remember to check CANVAS for updates:***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

*Although the case sequence was juggled (due to guests), we move from “operating turnarounds” to “financial restructuring” with the start of Part II*

**Cases**: **“Bonne Chance 2016”\*** CaseWorks # [posted on CANVAS and in casebook] [Submit your analysis in CANVAS’s Session 5/ *Bonne Chance* drop box. ***Read the CANVAS assignment for further instructions regarding this REQUIRED write-up***]

**“Cleveland Twist Drill (A) and (B)”** [9-384-083 and 9-384-163] [posted on CANVAS and in casebook] *Read these cases to understand the video that will be shown (about operating turnarounds)*

**Required Reading Assignments Due:**
J. Gabarro (1985), “When a New Manager Takes Charge,” Harvard Business Review, May-June, pp. 48-61. [posted on CANVAS and in casebook]

M. Gerstein & H. Reisman, (1983). “Strategic Selection: Matching Executives to Business Conditions,” Sloan Management Review, Winter, pp. 33-49. [posted on CANVAS and in casebook]

J.S. Livingston (2003), “Pygmalion in Management,” Harvard Business Review, 81(1): January [posted on CANVAS and in casebook]

**Optional Reading Assignments Due:**
“How Don Bibeault\*\*\* Uses the 80%-20% Rule” (1998). Bottom Line. Vol 27(5), May 1998, pp 1-2.

J. Kotter (1995), "Leading Change: Why Transformation Efforts Fail," Harvard Business Review, 73(2): March-April, pp.59-67. [posted on CANVAS only]

 Kulla (2006), “Employees Can Make or Break Reorganizations,” Turnaround Management Association, pp. 8-10 [posted on CANVAS only]

Archive of articles about distressed companies [posted on CANVAS] See Table of Contents contained in sub-folder for more details on which articles are in archive

**Topics from Core Courses:** *Forecasting weekly cash flows from operations; timing of payables; profitability of product lines; situation assessment; strategy implementation; leading transformations; downsizing; clearance sales, discounting and pricing strategy*

**Comment concerning full *Bonne Chance 2016\** series assignment:**

Build on your analysis of **Bonne Chance\*** asyou project cash flows for fifteen months into the future**.** Use any of the solutions reserved for **Bonne Chance 2016\*** -- e.g., (a) Inventory Balancing, (b) Rolex Trade-in Sales, (c) 40%-Off-Price Sale of Other Merchandise, (d) Factoring, or (e) any other solution needed to meet 2005 End of Year goals.  Submit both full-year *pro formas*, 2015 and 2016 Profit & Loss, Balance Sheet, and Sources & Uses. Comment on the impact of “extraordinary fixes.”

***Also*** submit report on the impact of adding a Swatch dealership.  Be sure to include the impact of Rolex's required purchases policy in your analyses and recommendations. (***Read the CANVAS assignment for further instructions regarding this REQUIRED write-up***.)

**Part II: Restructuring Basics**

**October 12, 2016**

**B8511 Session 6: Bankruptcy and Corporate Restructuring**

***Assignments due for Session #6 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Cases**: **“Thomas Cook on the Brink”** [9-215-008] [posted in casebook and on CANVAS]

**“Allegheny International”\*** CaseWorks # [posted on CANVAS and in casebook] *Read the CANVAS assignment for write-up instructions if you are doing this CHOICE A case write-up. This is a simple debt-for-equity swap proposal.*

***Guest Lecturer: Doug Squasoni (Crisis Quarterback)***

**Required Reading Assignments Due:**

“A Strategic Perspective on Bankruptcy,” [9-407-035] [posted on CANVAS and in casebook]

*Note that the American Bankruptcy Institute studied bankruptcy reform again in 2012.* *Associated materials are posted in CANVAS. Articles in casebook are from first reform of 2005.*

A. Hahn (2005), “Winners and Losers in Bankruptcy Bill,” Investment Dealers’ Digest, May 2. [posted on CANVAS and in casebook]

D. Baker, M. Goldstein, G. Katz, & J. Sprayregan (2005), “The Effect of the New Code on Distressed Investors,” Twelfth Annual Conference on Distressed Investing, Renaissance American Management, Inc. & Beard Group. [posted on CANVAS and in casebook]

M. Hoffman, C. Chen & K. Rodden (2005), “Bankruptcy Abuse Prevention and Consumer Protection Act of 2005,” Current Issues in Restructuring and Reorganization, Bankruptcy Bulletin, Weil, Gotshal & Manges, April 2005. [posted on CANVAS and in casebook]

D. Shefter, “Note Regarding Preparation of Case: Allegheny International (AI),” prepared for B8511 – Turnaround Management course [posted on CANVAS and in casebook]

**Optional Reading Assignments Due:**

Harris, JW. (2010. “Preparation of the Liquidation Analysis” [posted on CANVAS only]

Judges’ series (1998) Reorganization under the Bankruptcy Code--Chapter 11 [posted on CANVAS only]

“Investment Banking: Complexity Muddies Restructuring Process” (2003), The Banker, May, pp. 59-62. [posted on CANVAS only]

Bower & Gilson (2003), “The Social Cost of Fraud and Bankruptcy,” Harvard Business Review, December, 2003. [posted on CANVAS only]

 ABI Commission Report to Study Reform of Chapter 11 (2012-2014) [posted on CANVAS only]

 Transcript (2012) of ABI Hearing to Reform Chapter 11 Bankruptcy [posted on CANVAS only]

**Topics from Core Courses:** *Corporate governance, divestiture, financial restructuring; debt-for-debt swaps, debt-for-equity swaps; shareholder dilution; role of investment bankers in turnarounds and restructurings; valuing an ongoing firm*

**Comment concerning optional *Allegheny International\** CHOICE A exchange offer assignment:** There are rival factions that want Allegheny International’s capital structure to be restructured in a way that favors their situation. You must make a recommendation among rival exchange offers with supporting analysis and a memo detailing your conclusions concerning how Allegheny International should be restructured.

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**October 26, 2016**

**B8511 Session 7: Restructuring Distressed Companies**

***Assignments due for Session #7 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Required Cases due:**

**“Foamex International Inc. Operating Performance Case Study”\*** CaseWorks #080313 and **“Foamex International Inc. Capital Structure Case Study”\*** CaseWorks #080312 [both posted on CANVAS and in casebook] [**CHOICE B case write-up:** Submit your optional analysis in CANVAS’s Session 7 Foamex International drop box. *Read the CANVAS assignment for further instructions concerning this CHOICE B write-up.*]

**“GT Advanced Technologies,”\*** CaseWorks #160408

***Guest Speaker: Eduardo Maestre (Evercore)***

**Required Reading Assignments Due:**

H. Miller,\*\*\*[[8]](#footnote-8)\* M. Jacob, A. Bauer & G. Johnson (1999), “Insolvency: A Legal Guide,” International Financial Law Review, London, January, pp. 25-31. [posted on CANVAS and in casebook]

Weil, Gotshal & Manges (2005), “Section 507(a)(4) of the Bankruptcy Code,” Bankruptcy Bulletin, June [posted in CANVAS and in casebook]

**Optional Reading Assignments Due:**

Spector, M. 2012. “Keeping Mum about the ‘B’ Word.” Wall Street Journal. November 7. [posted on CANVAS only]

Economist (2007), “Vultures Take Wing,” March 31, pp.77-79 [posted on CANVAS only]

McKinsey (2006), “Learning to Let Go: Making Better Exit Decisions,” McKinsey Quarterly, no. 2 [posted on CANVAS only]

**Topics from Core Courses:** *Corporate governance, divestiture, financial restructuring; debt-for-debt swaps, debt-for-equity swaps; shareholder dilution; price-cost squeezes; role of investment bankers in turnarounds and restructurings; valuing an ongoing firm*

**Comment concerning *Foamex International* CHOICE B exchange offer assignment due in Session 7):** Like the Allegheny International\* case, there are rival factions that want Foamex to be restructured in a way that favors their situation. You must make a recommendation among rival reorganization plans and exchange offers with supporting analysis and a memo detailing your conclusions concerning how Foamex should emerge from bankruptcy. ***(See the CANVAS assignment for further instructions concerning this CHOICE B write-up.)***

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**November 2, 2016**

**B8511 Session 8: Serial Corporate Restructuring**

***Assignments due for Session #8 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Required Case Materials**:

**“Arch Wireless, Inc.,”** [9-205-024] [posted on CANVAS and in casebook] [**Optional case write-up:** Submit your optional analysis in CANVAS’s Session 7 Arch Wireless drop box. *Read the CANVAS assignment for further instructions*]

**Guest Speakers: Jeffrey Manning [CohenResnick], Larry Halperin [Chapman, LLC]**

**“Transformation of NCR,”** [9-715-438][posted on CANVAS and in casebook]

**“History of Johns-Manville Corporation”\*** CaseWorks#170401 [posted on CANVAS and in casebook]

**Required Reading Assignments Due:**

J. Rapisardi (2005), “Bankruptcy Practice – Second Liens and Bankruptcy: Part I,” New York Law Journal, March 30, pp. 3-8. [posted on CANVAS and in casebook]

J. Rapisardi (2005), “Bankruptcy Practice – Silent Second Liens and Bankruptcy: Part II,” New York Law Journal, May 30, pp. 3-8. [posted on CANVAS and in casebook]

**Optional Reading Assignments Due:**

Maynard, M. 2009. “Automakers’ Swift Cases in Bankruptcy Shock Experts,” New York Times, July 7.

Leach (2006), “Speed, Certainty of Close Are Critical to Success,” Turnaround Management Association, pp. 12-17 [posted on CANVAS only]

**Optional Case Information Concerning Bankruptcy (and Recovery) of Johns-Manville, a serial restructurer** [posted on CANVAS only]

1980 Financial Statements for Johns-Manville Corporation [posted on CANVAS only]

Articles concerning the bankruptcy of **Johns-Manville Corporation** [posted on CANVAS only]

**Topics from Core Courses**: *Creditor priority; pre-emptive filing of bankruptcy; strategic inaction and competitive response; leading organizations through bankruptcy*

**Comment concerning optional *Arch Wireless* assignment due in Session 8:**
In the paper submitted, you should opine whether the prepackaged bankruptcy plan submitted by **Arch Wireless** seems reasonable (i.e., Arch Wireless is more valuable as a going concern than if it is liquidated). Reasonableness is a relative matter, depending upon whose viewpoint you assume.  Please render your assessment from the sometimes-conflicting, diverse points of view of the several creditors who will be involved in any restructuring agreement. Use appropriate tests and make recommendations if you reject **Arch Wireless’** proposal. ***(See the CANVAS assignment for further instructions.)***

**November 9, 2016**

**B8511 Session 9: Repercussions of Restructuring**

***Assignments due for Session #9 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Required Case Materials**:

**“Solo Cup in 2007”** [KEL505] [posted on CANVAS and in casebook]

**“Parmalat USA Turnaround”** [KEL356] [posted on CANVAS and in casebook]

***Guest Lecturer: Doug Squasoni (Crisis Quarterback)***

**Required Reading Assignments Due:**

D. Robertson & P. Hjuler (2009), “Innovating a Turnaround at LEGO,” Harvard Business Review, September 2009 [posted on CANVAS and in casebook]

**Optional Reading Assignments Due:**

Motorola: Internal Turnaround slides (2005). [posted on CANVAS only]

Deloitte, 2012, Corporate restructuring and the role of the Chief Restructuring Officer (CRO) slides. [posted on CANVAS only]

Holt (2007), “International Bankruptcy and the Spirit of Comity: New U.S. Law Encourages Cooperation among Nations,” Business Horizons, vol. 50, pp. 105-112. [posted on CANVAS only]

**Topics from Core Courses**: *Integrating acquisitions; rationalizing product lines; role of consulting firms in turnarounds; recovering from fraud, extortion, illegality*

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**Part III: Saving Distressed Companies – CEOs and Investors**

**November 16, 2016**

**B8511 Session 10: Restructuring Out of Bankruptcy**

***Assignments Due for Session #10 (Remember to check CANVAS for updates:***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Case Assignments Due:**

**“PRG-Schultz International (A)”** [9-807-126] [posted on CANVAS and in casebook]

 [**OPTIONAL CASE:** Submit your analysis in CANVAS’s Session 7/ *PRG-Schultz International* drop box. ***Read the CANVAS assignment for further instructions***]

**“International Steel Group” [9-803-162]** [posted on CANVAS and in casebook]

**Required Reading Assignments Due**:

Cohen (2006), “Pension Benefit Guaranty Corporation – Paying Owed Pensions While Maintaining Liquidity,” The American Lawyer, March [posted on CANVAS and in casebook]

Rosenberg (2006), “Understanding Pension Benefit Guaranty Corporation’s (PBGC’s) Role in Bankruptcy, Turnaround Management Association, August, pp. 30-35 [posted on CANVAS and in casebook]

**Optional Reading Assignments Due:**

Akin, Gump (2011) “Pathology of Section 363 Transactions” [posted on CANVAS only]

Portfolio Media (2008) “Free and Clear Issue in Section 363 Transactions” [posted on CANVAS only]

Houser & Carvell (2002) “Section 363 Issues (Part 1),” ABA-ALA Business Law Course Materials Journal, February. [posted on CANVAS only]

**Topics from Core Courses**: *Compensation schemes, competitive bench-marking; financial restructuring; declining demand businesses; introducing new product lines; valuing an ongoing firm*

**Comment about *optional* PRG-Schultz International write-up:**

Vultures are encircling PRG-Schultz International and the firm has just engaged Rothschild to evaluate financing alternatives for it (including bankruptcy). Please figure out how PRG-Schultz International can service its debt by paying the interest due to bondholders in November 2005.  How can PRG-Schultz International pay off the bonds completely in November 2006?  Should PRG-Schultz International seek the protection of Chapter 11 of the Bankruptcy Code?  Is this company worth saving?  If your analysis indicates that it is worth saving, please explain how you would save it. (***Read the CANVAS assignment for further instructions***.)

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**November 30, 2016**

**B8511 Session 11: Noteworthy Turnaround Managers I**

***Assignments Due for Session #11 (Remember to check CANVAS for updates:***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Case Assignments Due:**

**“Al Dunlap at Sunbeam**,” [9-899-218] [posted on CANVAS and in casebook]

**“Sharp Electronics in 2013”\*** [CaseWorks] [posted on CANVAS and in casebook]

***Guest Lecturer: Doug Squasoni (Crisis Quarterback)***

**Optional Reading Assignments Due:**

Scott Paper Company (9-296-048) [posted on CANVAS only]

Eisenbiegler, et al., (2007), “Gravitating to Turnaround Investing,” Turnaround Management Association, March pp. 10-16 [posted on CANVAS only]

“Remarks by Elizabeth Warren regarding the Citibank Bailout in Cromnibus Bill” 2014, Washington Post.

**Topics from Core Courses**: *Leading change; motivating organizations; performance measures; turnaround managers; organizational change; managing operations*

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**December 7, 2016**

**B8511 Session 12: Noteworthy Turnaround Managers II**

***Assignments Due for Session #12 (Remember to check CANVAS for updates):***

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**Case Assignments**

**Due: “Kmart, Sears, and ESL: How a Hedge Fund Became One of the World’s Largest Retailers,”** [KEL133] [posted on CANVAS and in casebook]

**“Jamie Dimon and Bank One (A)”** [9-804-107] [in casebook]
 **“Jamie Dimon and Bank One (B)”** [9-804-108] [in casebook]

*Class may vote to screen DVD of “Too Big to Fail” in lieu of discussing this case series.*

**Optional Reading Assignments Due:**

1998 Bank One Letter to Shareholders [posted on CANVAS only]
1999 Bank One Letter to Shareholders [posted on CANVAS only]
2003 Bank One Letter to Shareholders [posted on CANVAS only]

“What Happened When Marissa Mayer Tried to Be Steve Jobs,” 2014, New York Times, December 14. [posted on CANVAS only]

H Sender (2005), “Hedge Fund Lending to Distressed Companies Makes for Gray Rules and Rough Play,” Wall Street Journal, July 18, C1 [posted on CANVAS only]

**Topics from Core Courses**: *Symbolic leadership; motivating organizations; performance measures; turnaround managers; organizational change; managing operations*

*FINAL PROJECTS ARE DUE (IN CANVAS) AT NOON ON FRIDAY, DECEMBER 16th*

*Please submit signed permission forms in CANVAS in order to submit Final Project to the Turnaround Management Association’s Paper Competition*

*First-Day Assignment Follows:*

**HERE IS THE CASE FOR SESSION 1 WRITE-UP: NADIR PUBLISHING**

Make recommendations for Nadir Publishing that will make it more solvent (and keep it away from bankruptcy). Suggest ways of improving cash flow. Make a recommendation about the opportunity to distribute the new line of titles (include your persuasive evidence). Recommend how to handle future relationships with creditors. You could provide annotated ratio analysis (if it provides insights), a calculation of Nadir’s “burn rate,” an estimate of break-even levels of activity, some comparison with industry norms, projections of cash flows (at least one week hence), pro forma financial statements and analyses, and a candid assessment of Nadir’s liquidation value (if it were not a going concern). See CANVAS Session 1: *Nadir Publishing* assignment for additional instructions:

**NADIR PUBLISHING**

At 9:00 AM, you are appointed President of Nadir Publishing.  Seven days from now you must present a plan of action that will convince your bank to extend the $4 million note that was due today.

For your information, Nadir has 3,000,000 shares authorized and 1,000,000 shares issued and outstanding.  Current market price is 2–2.20.  The stock is widely held.  Trading volume is small and sporadic.  Half the sales for the year just ended are from book titles it publishes.  The other half is from book titles distributed for an overseas “packager.”

Bookstores as well as their on line competitors – together they comprise more than 80% of Nadir’s business – normally pay within 45 days of invoice. Invoices are usually sent within 15 days of shipment, and therefore, average A/R DSO is 60 days.  Both brick and mortar bookstores as well as online companies that maintain inventories have the right to return unsold books for credit.  Book sales vary widely from month to month, but for purposes of this analysis, assume that sales are evenly spread through the year.

At 4:00 pm, your marketing director came in with a proposed solution to last year’s revenue and income declines.  He has found a packager with an exciting new line of book titles that should add $5 million to annual sales.  With a 50% gross margin, the contribution of $2.5 million, less commissions of $500 thousands, will bring Nadir back to break even. Furthermore, he has negotiated favorable terms:  1/3 in each of 30, 60, and 90 days after date of delivery.

Some industry norms are:
· 3 – 5 times inventory turns
· 30 – 40 % COGS for published book titles
· 50 – 60 % COGS for distributed book titles
· 20% SG&A expense/sales
· 8% sales representatives’ commissions

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| --- |
| NADIR PUBLISHINGCONDENSED INCOME STATEMENTFOR 12 MONTH PERIOD ENDING TODAY ($000) |
| Gross sales | $54,000 |
| Less returns and allowances | 4,000 |
| Net Sales | 50,000 |
| Less cost of goods sold | 27,500 |
| Gross profit | 22,500 |
|  |  |
| Operating Expenses |  |
|  Commissions | 5,000 |
|  SG&A | 14,500 |
|  R&D | 3,000 |
|  |  |
| Sub total | 22,500 |
| Operating Profit | 0 |
| Interest | 2,000 |
| Income (Loss) before taxes | (2,000) |
|  |  |

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| --- |
| NADIR PUBLISHINGBALANCE SHEET – TODAY ($000) |
| Current Assets |  |
| Cash | $250 |
| Accounts Receivable, net of reserves | 14,000 |
| Inventories, net of reserves | 20,000 |
| Subtotal current assets | 34,250 |
|  |  |
| Plant, property & equipment | 4,000 |
| Total Assets | 38,250 |
|  |  |
| Liabilities and Shareholders’ Equity |  |
| Current  |  |
| Notes payable\* | $4,000 |
| Current maturities of long term debt | 1,000 |
| Accounts payable | 15,000 |
| Other current | 2,000 |
|  Subtotal current liabilities | 22,000 |
| Long term debt | 10,000 |
| Shareholders’ equity | 6,250 |
| Total Liabilities and Shareholders’ Equity | 38,250 |

\*Outstanding $3,000 Letter of Credit is not shown on balance sheet. The Letter of Credit is used to purchase merchandise overseas where Nadir has not yet established creditworthiness

1. A good write-up of a second optional case is worth 100 potential extra credit points. A good write-up of a third optional case is worth another 100 potential extra credit points. A good write-up of a fourth optional case is worth another 100 potential extra credit points, et cetera. If everybody does the extra credit assignments, the grading curve must be adjusted accordingly to satisfy the Vice Dean/ Faculty grading curve guidelines. [↑](#footnote-ref-1)
2. Cover sheets, Tables of Contents, and Executive Summaries are not counted in the page limit. MBAs may *also* submit their EXCEL files (in case clarification is needed) and any PowerPoint files prepared to illuminate daily class discussions. *The submitted documents should be self-sufficient*. The Professor will read supplementary materials that are offered to clarify confusing analyses or recommendations. [↑](#footnote-ref-2)
3. \* Columbia Business School case [↑](#footnote-ref-3)
4. \*\* Columbia Business School faculty [↑](#footnote-ref-4)
5. \* Columbia Business School case [↑](#footnote-ref-5)
6. [↑](#footnote-ref-6)
7. \*\*  Columbia Business School faculty

\*\*\* Columbia Business School-trained Ph.D. [↑](#footnote-ref-7)
8. \*\*\*\* Columbia Law School faculty [↑](#footnote-ref-8)